

**CITY OF PRESTON
PRESTON, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2012**

**CITY OF PRESTON
PRESTON, IOWA
TABLE OF CONTENTS**

		<u>Page No.</u>
Officials		1
Independent Auditor's Report		2-4
Management's Discussion and Analysis		5-10
Basic Financial Statements:	Exhibit	
Government-wide Financial Statement:		
Statement of Activities and Net Assets - Cash Basis	A	11-12
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	13
Reconciliation of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances to the Statement of Activities and Net Assets	C	14
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	15-16
Reconciliation of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances to the Statement of Activities and Net Assets	E	17
Notes to Financial Statements		18-26
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds		27-28
Notes to Other Information - Budgetary Reporting		29
Supplementary Information:	Schedule	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	30
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Internal Service Funds	2	31
Schedule of Indebtedness	3	32
Bond and Note Maturities	4	33
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	5	34
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		35-36
Schedule of Findings		37-39

**CITY OF PRESTON
PRESTON, IOWA**

OFFICIALS

Name	Title	Term Expires
<hr/>		
(Before January 2012)		
Steve Ritenour	Mayor	January 2012
Richard Rossmann	Mayor Pro Tem/Council Member	January 2012
Ken Larson	Council Member	January 2012
Curt Gruver	Council Member	January 2014
Dave Jargo	Council Member	January 2014
Curtis Kilburg	Council Member	January 2014
Brenda Tebbe	City Clerk/Treasurer	Indefinite
Melissa Burken-Mommsen	City Attorney	Indefinite
 (After January 2012)		
Chad Gruver	Mayor	January 2016
Richard Rossmann	Mayor Pro Tem/Council Member	January 2016
Ken Larson	Council Member	January 2016
Curt Gruver	Council Member	January 2014
Dave Jargo	Council Member	January 2014
Curtis Kilburg	Council Member	January 2014
Brenda Tebbe	City Clerk/Treasurer	Indefinite
Melissa Burken-Mommsen	City Attorney	Indefinite

O'CONNOR, BROOKS & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

W.H. LEGLAR, CPA
S.J. DOMEYER, CPA
M.A. KUEPERS, CPA
J.W. HANNAN, CPA
M.P. RUGGEBERG, CPA
P.C. MCCARTHY, CPA
E.A. SCHILLING, CPA
S.H. ROBERTS, CPA
J.L. WOOLF, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Preston as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Preston's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements do not include financial data for the City's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data of the component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include financial data for its component unit. The City has not issued such reporting entity financial statements. The assets, liabilities, net assets, revenues, and expenses of the legally separate component unit is unknown, thus the amount by which this departure would affect the financial statements taken as a whole is not reasonably determinable.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1, the financial position of the aggregate discretely presented component units of the City of Preston, as of June 30, 2012, or the changes in cash basis financial position thereof for the year then ended.

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Furthermore, in our opinion, the respective financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Preston as of June 30, 2012, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated February 5, 2013 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Preston's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 30, 2011 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting with the exception of the four years ended June 30, 2011. For the four years ended June 30, 2011, we expressed an unqualified opinion on the financial statements of the various opinion units of the primary government and we expressed an adverse opinion on the aggregate discretely presented component unit due to the omission of the financial data for the City's legally separate component unit. The supplementary information included in Schedules 1-5 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The basic financial statements of the City of Preston for the two years ended June 30, 2004 (none of which are presented herein) were audited by other auditors whose reports dated August 12, 2004 and August 13, 2003 expressed unqualified opinions on those statements. Their reports stated that, in their opinion, such supplementary information (Schedule 5) was fairly stated in all material respects in relation to the basic financial statements for those year then ended, taken as a whole.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Preston's basic financial statements. Management's Discussion and Analysis and the budgetary comparison information on pages 5 through 10 and 27 through 29 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied

in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

O'CONNOR, BROOKS & CO., P.C.

O'Connor, Brooks & Co., P.C.

Dubuque, Iowa

February 5, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Preston provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 11.7% or \$71,505 from fiscal 2011 to fiscal 2012. The receipts included \$216,937 in property tax, \$74,088 in local option tax, and \$95,989 in road use tax funds.
- Disbursements decreased 17.5% or \$110,062 in fiscal 2012 from fiscal 2011. Public safety, public works, culture and recreation, community and economic development, water, and gas disbursements decreased \$43,955, \$10,873, \$51,308, \$7,766, \$236,282, and \$34,785, respectively, while general government, electric, sewer, and garbage disbursements increased \$4,247, \$259,037, \$49,997 and \$10,378, respectively.
- The City's total cash basis net assets increased 73.8% or \$492,494 from June 30, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased \$120,442. The assets of the business type activities increased by \$372,052.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds, proprietary funds, and internal service funds, and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government and debt service. Property tax, state grants, and payments in lieu of taxes finance most of these activities.
- Business type activities include water, sewer, electric, gas, garbage, and customer deposits. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of the funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund; 2) the Special Revenue Funds, such as Road Use Tax, and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains six Enterprise Funds to provide separate information for the water, sewer, electric, gas, garbage, and customer deposits funds. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, from \$52,538 to \$172,980. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year Ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service	\$ 40,487	\$ 39,934
Operating grants and contributions	150,797	151,961
Capital grants and contributions	11,000	113,555
General receipts:		
Property tax	216,937	209,685
Other city tax	82,026	71,981
Unrestricted investment earnings	2,378	2,803
Other general receipts	22,575	16,634
Sale of assets	12,780	3,932
Total receipts	\$ 538,980	\$ 610,485
Disbursements:		
Public safety	\$ 212,913	\$ 256,868
Public works	119,745	130,618
Culture and recreation	91,577	142,885
Community and economic development	7,417	15,183
General government	65,583	61,336
Debt service	21,303	21,710
Total disbursements	\$ 518,538	\$ 628,600
Change in cash basis net assets before transfers	\$ 20,442	\$ (18,115)
Transfers, net	100,000	120,000
Change in cash basis net assets	\$ 120,442	\$ 101,885
Cash basis net assets beginning of year	52,538	(49,347)
Cash basis net assets end of year	\$ 172,980	\$ 52,538

Total receipts for the City's governmental activities decreased by 11.7% or \$71,505. The total cost of all programs and services decreased \$110,062 or 17.5%. The decrease in receipts is due to one-time grant proceeds received in fiscal year 2011. The decrease in the cost of programs and services is due to budget cuts through all of the funds.

The cost of all governmental activities this year was \$518,538 compared to \$628,600 last year. As shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was \$316,254 because some of the cost was paid by those directly benefited from the programs \$40,487 or by other governments and organizations that subsidized certain programs with grants and contributions \$161,787. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for services decreased from \$305,450 in fiscal year 2011 to \$202,284 in fiscal year 2012. The City paid for the remaining "public benefit" portion of governmental activities with \$336,696 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities

	Year Ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 209,585	\$ 185,910
Electric	1,088,980	996,484
Gas	354,505	402,931
Sewer	197,806	192,444
Garbage	132,326	123,211
Customer deposits	5,926	5,053
General receipts:		
Unrestricted interest on investments	6,667	7,264
Miscellaneous	105,994	113,430
Debt proceeds	600,000	375,000
Total receipts	<u>\$2,701,789</u>	<u>\$2,401,727</u>
Disbursements:		
Water	\$ 246,225	\$ 482,507
Electric	1,267,999	1,008,962
Gas	348,283	383,068
Sewer	234,566	184,569
Garbage	127,720	117,342
Customer deposits	4,944	4,119
Total disbursements	<u>\$2,229,737</u>	<u>\$2,180,567</u>
Change in cash basis net assets before transfers	\$ 472,052	\$ 221,160
Transfer, net	(100,000)	(120,000)
Change in cash basis net assets	<u>\$ 372,052</u>	<u>\$ 101,160</u>
Cash basis net assets beginning of year	615,196	514,036
Cash basis net assets end of year	<u><u>\$ 987,248</u></u>	<u><u>\$ 615,196</u></u>

Total business type activities disbursements for the fiscal year were \$2,229,737 compared to \$2,180,567 last year. The decrease in water disbursements was due primarily to completion of a water project that was started in fiscal year 2011. The increase in electric disbursements is due to an electric distribution lines project. The decrease in gas disbursements was due primarily to

budget cuts. The increase in sewer disbursements was due to the purchase of a stand by generator.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Preston completed the year, its governmental funds reported a combined fund balance of \$168,939, an increase of \$120,631 above last year's total. The following are the reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash deficit decreased from \$(112,326) to \$(22,042). The decrease of \$90,284 is due primarily to budget cuts and a contribution in lieu of taxes from the Gas and Electric Funds.
- The Road Use Tax Fund cash balance increased \$49,226 to \$243,958 as the City is accumulating funds for future projects.
- The Library Foundation Fund cash balance increased \$2,141 due to interest.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance decreased \$35,539 due to completion of a water project.
- The Sewer Fund cash balance decreased \$35,910 due to the purchase of a stand by generator.
- The Electric Fund cash balance increased \$451,965 due to borrowing for the electric distribution line project. This project was still in progress at June 30, 2012.
- The Gas Fund cash balance decreased \$14,542 as the result of a contribution in lieu of taxes to the General Fund.
- The Garbage Fund cash balance increased only \$5,656 due to higher than expected repair costs.

BUDGETARY HIGHLIGHTS

The City amended its budget only once during the fiscal year. It was amended and approved on May 29, 2012, to provide for unexpected disbursements. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$510,649 less than budgeted. This was primarily due to applying for a grant that was not awarded to the City and loan proceeds incorrectly included in charges for services in the budget.

The City exceeded the amounts budgeted in the public works, culture and recreation, general government and debt service functions for the year ended June 30, 2012 due to unanticipated costs in those departments.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$1,118,267 in bonds and other long-term debt, compared to \$603,833 last year, as shown below.

Outstanding Debt at Year End		
	June 30,	
	2012	2011
General obligation notes	\$ 96,267	\$ 112,833
Revenue bonds	---	17,000
Revenue note	907,000	339,000
Other obligations	115,000	135,000
Total	\$1,118,267	\$ 603,833

Debt increased as a result of a new revenue note for the electric distribution lines project. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$96,267 is significantly below its constitutional debt limit of \$2.2 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Numerous issues were taken into account when adopting the budget for fiscal year 2013. Amount available for appropriation in the operating budget will be \$3,112,212, an increase of 20% from the final 2012 budget. Intergovernmental receipts are expected to increase approximately \$98,000. Charges for services are expected to increase approximately \$547,000.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$18,000.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brenda Tebbe, City Clerk/Treasurer, P.O. Box 37, Preston, Iowa 52069.

**BASIC
FINANCIAL
STATEMENTS**

**CITY OF PRESTON
PRESTON, IOWA**

**STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental Activities:							
Public safety	\$ 212,913	\$ 32,994	\$ 38,530	\$ 6,500	\$ (134,889)	\$ ---	\$ (134,889)
Public works	119,745	283	95,989	---	(23,473)	---	(23,473)
Culture and recreation	91,577	1,229	16,278	4,500	(69,570)	---	(69,570)
Community and economic development	7,417	---	---	---	(7,417)	---	(7,417)
General government	65,583	5,981	---	---	(59,602)	---	(59,602)
Debt service	21,303	---	---	---	(21,303)	---	(21,303)
Total Governmental Activities	\$ 518,538	\$ 40,487	\$ 150,797	\$ 11,000	\$ (316,254)	\$ ---	\$ (316,254)
Business Type Activities:							
Water	\$ 246,225	\$ 209,585	\$ ---	\$ ---	\$ ---	\$ (36,640)	\$ (36,640)
Electric	1,267,999	1,088,980	---	---	---	(179,019)	(179,019)
Gas	348,283	354,505	---	---	---	6,222	6,222
Sewer	234,566	197,806	---	---	---	(36,760)	(36,760)
Garbage	127,720	132,326	---	---	---	4,606	4,606
Customer deposits	4,944	5,926	---	---	---	982	982
Total Business Type Activities	\$ 2,229,737	\$ 1,989,128	\$ ---	\$ ---	\$ ---	\$ (240,609)	\$ (240,609)
Total	\$ 2,748,275	\$ 2,029,615	\$ 150,797	\$ 11,000	\$ (316,254)	\$ (240,609)	\$ (556,863)

See notes to financial statements.

**CITY OF PRESTON
PRESTON, IOWA**

**STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
General Receipts and Transfers:						
Property tax levied for general purposes				\$ 216,937	\$ ---	\$ 216,937
Other city tax				82,026	---	82,026
Unrestricted interest on investments				2,378	6,667	9,045
Miscellaneous				22,575	85,994	108,569
Note proceeds				---	600,000	600,000
Interfund debt repayment				---	20,000	20,000
Sale of assets				12,780	---	12,780
Transfers				100,000	(100,000)	---
Total General Receipts and Transfers				\$ 436,696	\$ 612,661	\$ 1,049,357
Change in Cash Basis Net Assets				\$ 120,442	\$ 372,052	\$ 492,494
Cash Basis Net Assets Beginning of Year				52,538	615,196	667,734
Cash Basis Net Assets End of Year				\$ 172,980	\$ 987,248	\$ 1,160,228
Cash Basis Net Assets:						
Restricted:						
Expendable:						
Debt service				\$ ---	\$ 20,273	\$ 20,273
Library				55,817	---	55,817
Streets				243,958	---	243,958
Unrestricted (deficit)				(126,795)	966,975	840,180
Total Cash Basis Net Assets				\$ 172,980	\$ 987,248	\$ 1,160,228

See notes to financial statements.

**CITY OF PRESTON
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

		Special Revenue			
	General	Road Use Tax	Library Foundation	Nonmajor	Total
Receipts:					
Property tax	\$ 216,937	\$ ---	\$ ---	\$ ---	\$ 216,937
Other city tax	82,026	---	---	---	82,026
Licenses and permits	3,165	---	---	---	3,165
Use of money and property	3,007	---	2,187	---	5,194
Intergovernmental	54,308	95,989	---	---	150,297
Charges for services	34,223	---	---	---	34,223
Special assessments	---	---	---	283	283
Miscellaneous	33,575	---	500	---	34,075
Total Receipts	\$ 427,241	\$ 95,989	\$ 2,687	\$ 283	\$ 526,200
Disbursements:					
Operating					
Public safety	\$ 212,913	\$ ---	\$ ---	\$ ---	\$ 212,913
Public works	72,793	46,763	---	---	119,556
Culture and recreation	91,031	---	546	---	91,577
Community and economic development	7,417	---	---	---	7,417
General government	65,583	---	---	---	65,583
Debt service	---	---	---	21,303	21,303
Total Disbursements	\$ 449,737	\$ 46,763	\$ 546	\$ 21,303	\$ 518,349
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (22,496)	\$ 49,226	\$ 2,141	\$ (21,020)	\$ 7,851
Other Financing Sources (Uses):					
Sale of assets	\$ 12,780	\$ ---	\$ ---	\$ ---	\$ 12,780
Operating transfers in	100,000	---	---	---	100,000
Total Other Financing Sources (Uses)	\$ 112,780	\$ ---	\$ ---	\$ ---	\$ 112,780
Net Change in Cash Balances	\$ 90,284	\$ 49,226	\$ 2,141	\$ (21,020)	\$ 120,631
Cash Balances Beginning of Year	(112,326)	194,732	53,676	(87,774)	48,308
Cash Balances End of Year	\$ (22,042)	\$ 243,958	\$ 55,817	\$ (108,794)	\$ 168,939
Cash Basis Fund Balances:					
Restricted for:					
Library	\$ ---	\$ ---	\$ 55,817	\$ ---	\$ 55,817
Streets	---	243,958	---	---	243,958
Unassigned	(22,042)	---	---	(108,794)	(130,836)
Total Cash Basis Fund Balances	\$ (22,042)	\$ 243,958	\$ 55,817	\$ (108,794)	\$ 168,939

See notes to financial statements.

**CITY OF PRESTON
PRESTON, IOWA**

**RECONCILIATION OF THE STATEMENT
OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES
AND NET ASSETS - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

Total governmental funds cash balances	\$ 168,939
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*Amounts reported for governmental activities in the Statement of
Activities and Net Assets are different because:*

The Internal Service Funds are used by management to charge the costs of the shed maintenance and to charge the reserve for insurance premiums to the individual funds. The assets of the Internal Service Funds are included in governmental activities in the Statement of Net Assets

4,041

Cash basis net assets of governmental activities	\$ 172,980
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Net change in cash balances	\$ 120,631
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*Amounts reported for governmental activities in the Statement of
Activities and Net Assets are different because:*

The Internal Service Funds are used by management to charge the costs of shed maintenance and to charge the reserve for insurance premiums to the individual funds. The change in net assets of the Internal Service Funds is reported with governmental activities.

(189)

Change in cash balance of governmental activities	\$ 120,442
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**CITY OF PRESTON
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

	Enterprise							Internal Service Funds
	Water	Sewer	Electric	Gas	Garbage	Nonmajor Customer Deposits	Total	
Operating Receipts:								
Charges for services	\$ 209,585	\$ 197,806	\$ 1,088,980	\$ 354,505	\$ 132,326	\$ 5,926	\$ 1,989,128	\$ ---
Miscellaneous	---	---	65,882	---	---	---	65,882	---
Total Operating Receipts	\$ 209,585	\$ 197,806	\$ 1,154,862	\$ 354,505	\$ 132,326	\$ 5,926	\$ 2,055,010	\$ ---
Operating Disbursements:								
Salaries and wages	\$ 31,711	\$ 28,499	\$ 87,577	\$ 38,911	\$ 36,044	\$ ---	\$ 222,742	\$ ---
Employee benefits and costs	16,978	15,976	48,646	25,431	26,284	---	133,315	---
Staff development	968	751	956	5,603	---	---	8,278	---
Repairs, maintenance, and utilities	24,967	21,283	28,744	4,119	17,007	---	96,120	554
Contractual services	21,147	13,647	741,211	262,394	45,079	4,944	1,088,422	---
Commodities	36,906	37,937	94,191	11,672	3,153	---	183,859	211
Capital outlay	1,130	5,123	10,500	---	---	---	16,753	---
Total Operating Disbursements	\$ 133,807	\$ 123,216	\$ 1,011,825	\$ 348,130	\$ 127,567	\$ 4,944	\$ 1,749,489	\$ 765
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	\$ 75,778	\$ 74,590	\$ 143,037	\$ 6,375	\$ 4,759	\$ 982	\$ 305,521	\$ (765)

See notes to financial statements.

**CITY OF PRESTON
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

	Enterprise							Internal Service Funds
	Water	Sewer	Electric	Gas	Garbage	Nonmajor Customer Deposits	Total	
Non-Operating Receipts (Disbursements)								
Interest on investments	\$ 166	\$ 8	\$ 40	\$ 6,347	\$ 93	\$ 13	\$ 6,667	\$ ---
Miscellaneous	897	804	14,871	2,736	804	---	20,112	---
Proceeds of revenue note	---	---	600,000	---	---	---	600,000	---
Repayment of interfund loan	---	---	---	20,000	---	---	20,000	---
Debt service	(45,620)	(43,303)	---	---	---	---	(88,923)	---
Capital projects	(66,760)	(68,009)	(255,983)	---	---	---	(390,752)	---
Net Non-Operating Receipts (Disbursements)	\$ (111,317)	\$ (110,500)	\$ 358,928	\$ 29,083	\$ 897	\$ 13	\$ 167,104	\$ ---
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (35,539)	\$ (35,910)	\$ 501,965	\$ 35,458	\$ 5,656	\$ 995	\$ 472,625	\$ (765)
Operating Transfers Out	---	---	(50,000)	(50,000)	---	---	(100,000)	---
Net Change in Cash Balances	\$ (35,539)	\$ (35,910)	\$ 451,965	\$ (14,542)	\$ 5,656	\$ 995	\$ 372,625	\$ (765)
Cash Balances Beginning of Year	211,408	17,829	(78,117)	343,977	109,217	14,756	619,070	356
Cash Balances End of Year	\$ 175,869	\$ (18,081)	\$ 373,848	\$ 329,435	\$ 114,873	\$ 15,751	\$ 991,695	\$ (409)
Cash Basis Fund Balances:								
Restricted for debt service	\$ 20,273	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ 20,273	\$ ---
Unrestricted	155,596	(18,081)	373,848	329,435	114,873	15,751	971,422	(409)
Total Cash Basis Fund Balances	\$ 175,869	\$ (18,081)	\$ 373,848	\$ 329,435	\$ 114,873	\$ 15,751	\$ 991,695	\$ (409)

See notes to financial statements.

**CITY OF PRESTON
PRESTON, IOWA**

**RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,
DISBURSEMENTS, AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

Total enterprise funds cash balances	\$ 991,695
---	------------

*Amounts reported for business type activities in the Statement of
Activities and Net Assets are different because:*

The Internal Service Funds are used by management to charge the costs of the shed maintenance and to charge the reserve for insurance premiums to the individual funds. The assets of the Internal Service Funds are included in business type activities in the Statement of Net Assets.

(4,447)

Cash basis net assets of business type activities	\$ 987,248
--	------------

=====

Net change in cash balances	\$ 372,625
------------------------------------	------------

*Amounts reported for business type activities in the Statement of
Activities and Net Assets are different because:*

The Internal Service Funds are used by management to charge the costs of shed maintenance and to charge the reserve for insurance premiums to the individual funds. The change in net assets of the Internal Service Funds is reported with business type activities.

(573)

Change in cash balance of business type activities	\$ 372,052
---	------------

=====

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 1 - Summary of Significant Accounting Policies:

The City of Preston is a political subdivision of the State of Iowa located in Jackson County. It was first incorporated in 1890 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides, water, sewer, electric, gas, and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Preston has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has one component unit which meets the Governmental Accounting Standards Board criteria, the Preston Volunteer Fire Department. This component unit has not been included in the City's financial statements.

Jointly Governed Organizations

The City participates in one jointly governed organization that provides goods or services to the citizenry of the City but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following board: Jackson County Sanitation Disposal Agency.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 1 - Summary of Significant Accounting Policies: (Continued)

B. Basis of Presentation (Continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and enterprise funds are aggregated and reported as nonmajor governmental funds and nonmajor enterprise funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Library Foundation Fund is used to account for donations which are restricted to use for the library.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 1 - Summary of Significant Accounting Policies: (Continued)

B. Basis of Presentation (Continued)

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's sewer system.

The Enterprise, Electric Fund accounts for the operation and maintenance of the City's electric system.

The Enterprise, Gas Fund accounts for the operation and maintenance of the City's gas system.

The Enterprise, Garbage Fund accounts for the operation and maintenance of the City's sanitation system.

The City also reports the following additional proprietary fund:

Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

C. Measurement Focus and Basis of Accounting

The City of Preston maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the city funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 1 - Summary of Significant Accounting Policies: (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public works, culture and recreation, general government, and debt service functions.

Note 2 - Cash and Pooled Investments:

The City's deposits in banks at June 30, 2012 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 2 - Cash and Pooled Investments: (Continued)

At June 30, 2012, the City had the following investments:

Type -----	Fair Value -----	Maturity -----
Maquoketa Area Foundation	\$ 55,817 =====	N/A

Interest Rate Risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

Credit Risk - The City's investment in the Maquoketa Area Foundation is unrated.

Note 3 - Bonds and Notes Payable:

Annual debt service requirements to maturity for the City's indebtedness are as follows:

Year Ending June 30, -----	General Obligation Note -----		General Obligation Note -----		Revenue Note -----	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 10,600	\$ 424	\$ 6,226	\$ 3,612	\$ 40,000	\$ 17,955
2014	---	---	6,495	3,341	40,000	17,325
2015	---	---	6,778	3,058	40,000	16,065
2016	---	---	7,073	2,764	40,000	14,805
2017	---	---	7,380	2,457	40,000	13,545
2018-2022	---	---	42,000	7,183	200,000	48,825
2023-2027	---	---	9,715	311	200,000	17,325
Total	\$ 10,600 =====	\$ 424 =====	\$ 85,667 =====	\$ 22,726 =====	\$ 600,000 =====	\$ 145,845 =====

Year Ending June 30 -----	Revenue Note -----		Other Obligations -----		Total -----	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 33,000	\$ 12,280	\$ 20,000	\$ 4,837	\$ 109,826	\$ 39,108
2014	35,000	10,960	20,000	4,018	101,495	35,644
2015	36,000	9,560	25,000	3,188	107,778	31,871
2016	37,000	8,120	25,000	2,138	109,073	27,827
2017	39,000	6,640	25,000	1,075	111,380	23,717
2018-2022	127,000	10,280	---	---	369,000	66,288
2023-2027	---	---	---	---	209,715	17,636
Total	\$ 307,000 =====	\$ 57,840 =====	\$ 115,000 =====	\$ 15,256 =====	\$1,118,267 =====	\$ 242,091 =====

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 3 - Bonds and Notes Payable: (Continued)

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$715,000 in sewer revenue bonds issued in August 1991 and November 1992. Proceeds from the bonds provided financing for improvements to the sewer system. The bonds are payable solely from sewer customer net receipts and are payable through 2012. The total principal and interest remaining to be paid on the bonds is \$0. For the current year, principal and interest paid and total customer net receipts were \$17,255 and \$74,590, respectively.

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$375,000 in water revenue notes issued in October 2010. Proceeds from the notes provided financing for improvements to the water system. The notes are payable solely from water customer net receipts and are payable through 2020. Annual principal and interest payments on the notes are expected to require less than 60 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$364,840. For the current year, principal and interest paid and total customer net receipts were \$45,620 and \$75,778, respectively.

The resolution providing for the issuance of the water revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the Water Fund, and the noteholders hold a lien on the future earnings of the fund.
- (b) Establish a Sinking Fund and make a monthly cash transfer equal to 1/6 of the installment of interest coming due on the next interest payment date plus 1/12 of the installment of principal coming due on the notes on the next succeeding principal payment date.

The City did comply with all of the provisions of the water notes during the year ended June 30, 2012.

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$600,000 in electric revenue notes issued in June 2012. Proceeds from the notes will provide financing for improvements to the electric system. The notes are payable solely from electric customer net receipts and are payable through 2027. Annual principal and interest payments on the notes are expected to require less than 41 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$745,845. For the current year, principal and interest paid and total customer net receipts were \$0 and \$143,037, respectively.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 4 - Pension and Retirement Benefits:

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010, were \$32,856, \$28,527, and \$26,699, respectively, equal to the required contributions for each year.

Note 5 - Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 7 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$476 for single coverage and \$1,190 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$111,724 and plan members eligible for benefits contributed \$6,012 to the plan.

Note 6 - 28E Agreement:

On June 14, 2010, the City entered into a 28E Agreement with the City of Miles to provide police services to the City of Miles.

On June 14, 2010, the City entered into a 28E Agreement with the City of Spragueville to provide police services to the City of Spragueville.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 7 - Compensated Absences:

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2012, primarily relating to the General Fund, is \$7,413. The liability has been computed based on rates of pay as of June 30, 2012.

Note 8 - Interfund Transfers:

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

Transfer to -----	Transfer from -----	Amount -----
General	Enterprise:	
	Electric	\$ 50,000
	Gas	50,000

		\$ 100,000
		=====

Transfers are used to move receipts from user fee generated funds to the general fund for certain administrative and other costs in the general fund.

Note 9 - Risk Management:

The City is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 10 - Commitments and Contingencies:

In April 2010, the City approved a \$25,000 donation for the purchase of two ambulances to be paid over a period of three years. The first payment was made in July 2011.

In March 2012, the City entered into a contract for conversion of the electric distribution lines in the amount of \$678,391. Payments of \$247,144 have been made on this contract as of June 30, 2012.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Note 10 - Commitments and Contingencies: (Continued)

During 2006, the City was named in litigation filed by an energy cooperative claiming it did not receive payment for the use of its electrical transmission lines and substations. The case was scheduled to go to trial in September 2012; however, a settlement was reached in February 2012. The case has been stayed pending review and approval of the settlement agreement by the Federal Energy Regulatory Commission. The City is unable to estimate a range of possible loss, if any.

In April 2012, the city entered into a contract for street maintenance in the amount of \$30,384. No payments had been made on this contract as of June 30, 2012.

Note 11 - General Fund Account Balances:

The account balances of the General Fund as of June 30, 2012, are as follows:

General	\$ (43,333)
Police capital account	464
Library trust	14,424
Fire department trust	6,403

Total General Fund Balance	\$ (22,042)
	=====

Note 12 - Deficit Fund Balance:

The General Fund, Special Assessment, and Debt Service Funds had deficit fund balances of \$22,042, \$654 and \$108,140, respectively, at June 30, 2012 as a result of disbursements in excess of receipts. The deficits will be eliminated by future receipts.

The Sewer Enterprise Fund had a deficit fund balance of \$18,081, at June 30, 2012. The deficit fund balance is the result of disbursements in excess of charges for service. The deficit will be eliminated by future charges for service.

The Internal Service, Shed Reserve Fund had a deficit fund balance of \$5,931, at June 30, 2012. The deficit is the result of disbursements in excess of receipts. The deficit will be eliminated by future transfers from other funds.

Note 13 - Subsequent Events:

Management has evaluated subsequent events through February 5, 2013, the date on which the financial statements were available to be issued.

**OTHER
INFORMATION**

**CITY OF PRESTON
PRESTON, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
YEAR ENDED JUNE 30, 2012**

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Receipts:							
Property tax	\$ 216,937	\$ ---	\$ ---	\$ 216,937	\$ 215,800	\$ 215,800	\$ 1,137
Other city tax	82,026	---	---	82,026	71,263	71,263	10,763
Licenses and permits	3,165	---	---	3,165	2,385	2,385	780
Use of money and property	5,194	6,667	---	11,861	12,000	12,000	(139)
Intergovernmental	150,297	---	---	150,297	273,000	273,000	(122,703)
Charges for services	34,223	1,989,128	---	2,023,351	1,803,620	2,453,620	(430,269)
Special assessments	283	---	---	283	570	570	(287)
Miscellaneous	34,075	105,994	---	140,069	110,000	110,000	30,069
Total Receipts	\$ 526,200	\$ 2,101,789	\$ ---	\$ 2,627,989	\$ 2,488,638	\$ 3,138,638	\$ (510,649)
Disbursements:							
Public safety	\$ 212,913	\$ ---	\$ ---	\$ 212,913	\$ 195,480	\$ 225,480	\$ 12,567
Public works	119,556	---	---	119,556	88,990	88,990	(30,566)
Culture and recreation	91,577	---	---	91,577	77,625	87,625	(3,952)
Community and economic development	7,417	---	---	7,417	198,500	198,500	191,083
General government	65,583	---	---	65,583	57,805	57,805	(7,778)
Debt service	21,303	---	---	21,303	17,215	17,215	(4,088)
Business type activities	---	2,229,929	765	2,229,164	1,792,650	2,442,650	213,486
Total Disbursements	\$ 518,349	\$ 2,229,929	\$ 765	\$ 2,747,513	\$ 2,428,265	\$ 3,118,265	\$ 370,752

See accompanying independent auditor's report.

**CITY OF PRESTON
PRESTON, IOWA**

**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
YEAR ENDED JUNE 30, 2012**

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ 7,851	\$ (128,140)	\$ (765)	\$ (119,524)	\$ 60,373	\$ 20,373	\$ (139,897)
Other Financing Sources (Uses), Net	112,780	500,000	---	612,780	---	40,000	572,780
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	\$ 120,631	\$ 371,860	\$ (765)	\$ 493,256	\$ 60,373	\$ 60,373	\$ 432,883
Balances, Beginning of Year	48,308	619,426	356	667,378	663,593	663,593	3,785
Balances, End of Year	\$ 168,939	\$ 991,286	\$ (409)	\$ 1,160,634	\$ 723,966	\$ 723,966	\$ 436,668

See accompanying independent auditor's report.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO OTHER INFORMATION
BUDGETARY REPORTING
JUNE 30, 2012**

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$690,000 and budgeted disbursements by \$690,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the public works, culture and recreation, general government, and debt service functions.

**SUPPLEMENTARY
INFORMATION**

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES - NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

	Special Revenue -----		
	Special Assessments -----	Debt Service -----	Total -----
Receipts:			
Special assessments	\$ 283	\$ ---	\$ 283
Disbursements:			
Debt service	---	21,303	21,303
	-----	-----	-----
Net Change in Cash Balances	\$ 283	\$ (21,303)	\$ (21,020)
Cash Balances Beginning of Year	(937)	(86,837)	(87,774)
	-----	-----	-----
Cash Balances End of Year	\$ (654)	\$ (108,140)	\$ (108,794)
	=====	=====	=====
Cash Basis Fund Balances:			
Unassigned	\$ (654)	\$ (108,140)	\$ (108,794)
	=====	=====	=====

See accompanying independent auditor's report.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES – INTERNAL SERVICE FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2012**

	Shed Reserve	Insurance Reserve	Total
	-----	-----	-----
Operating Receipts:			
Charges for services	\$ ---	\$ ---	\$ ---
	-----	-----	-----
Operating Disbursements:			
Repairs, maintenance and utilities	\$ 554	\$ ---	\$ 554
Commodities	211	---	211
	-----	-----	-----
Total Operating Disbursements	\$ 765	\$ ---	\$ 765
	-----	-----	-----
Net Change in Cash Balances	\$ (765)	\$ ---	\$ (765)
	-----	-----	-----
Cash Balances Beginning of Year	(5,166)	5,522	356
	-----	-----	-----
Cash Balances End of Year	\$ (5,931)	\$ 5,522	\$ (409)
	=====	=====	=====
Cash Basis Fund Balances:			
Unrestricted	\$ (5,931)	\$ 5,522	\$ (409)
	=====	=====	=====

See accompanying independent auditor's report.

CITY OF PRESTON
PRESTON, IOWA

SCHEDULE "3"

SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2012

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue Notes:									
Water	October 14, 2010	4.00%	\$ 375,000	\$ 339,000	\$ ---	\$ 32,000	\$ 307,000	\$ 13,620	\$ ---
Electric	June 13, 2012	3.15%	600,000	---	600,000	---	600,000	---	---
				\$ 339,000	\$ 600,000	\$ 32,000	\$ 907,000	\$ 13,620	\$ ---
Revenue Bonds:									
Sewer	November 25, 1992	3.00%	\$ 225,000	\$ 17,000	\$ ---	\$ 17,000	\$ ---	\$ 255	\$ ---
General Obligation Note:									
Fire truck	December 13, 2002	4.00%	\$ 106,000	\$ 21,200	\$ ---	\$ 10,600	\$ 10,600	\$ 866	\$ ---
Fire truck	August 26, 2008	4.30%	109,000	91,633	---	5,966	85,667	3,871	---
Total				\$ 112,833	\$ ---	\$ 16,566	\$ 92,267	\$ 4,737	\$ ---
Other Obligation:									
Sewer Fund - Interfund Loan	August 27, 2007	3.90-4.30%	\$ 210,000	\$ 135,000	\$ ---	\$ 20,000	\$ 115,000	\$ 6,048	\$ ---

See accompanying independent auditor's report.

**CITY OF PRESTON
PRESTON, IOWA**

**BOND AND NOTE MATURITIES
JUNE 30, 2012**

Revenue Notes

Year Ending June 30	Water		Electric		Total
	Issued October 14, 2010		Issued June 13, 2012		
	Interest Rates	Amount	Interest Rates	Amount	
2013	4.00%	\$ 33,000	3.15%	\$ 40,000	\$ 73,000
2014	4.00%	35,000	3.15%	40,000	75,000
2015	4.00%	36,000	3.15%	40,000	76,000
2016	4.00%	37,000	3.15%	40,000	77,000
2017	4.00%	39,000	3.15%	40,000	79,000
2018	4.00%	41,000	3.15%	40,000	81,000
2019	4.00%	42,000	3.15%	40,000	82,000
2020	4.00%	44,000	3.15%	40,000	84,000
2021		---	3.15%	40,000	40,000
2022		---	3.15%	40,000	40,000
2023		---	3.15%	40,000	40,000
2024		---	3.15%	40,000	40,000
2025		---	3.15%	40,000	40,000
2026		---	3.15%	40,000	40,000
2027		---	3.15%	40,000	40,000
Total		\$ 307,000		\$ 600,000	\$ 907,000

General Obligation Notes

Year Ending June 30	Fire Truck		Fire Truck		Total	Sewer	
	Issued December 13, 2002		Issued August 26, 2008			Issued August 27, 2007	
	Interest Rates	Amount	Interest Rates	Amount		Interest Rates	Amount
2013	4.00%	\$ 10,600	4.30%	\$ 6,226	\$ 16,826	4.10%	20,000
2014		---	4.30%	6,495	6,495	4.15%	20,000
2015		---	4.30%	6,778	6,778	4.20%	25,000
2016		---	4.30%	7,073	7,073	4.25%	25,000
2017		---	4.30%	7,380	7,380	4.30%	25,000
2018		---	4.30%	7,701	7,701		---
2019		---	4.30%	8,036	8,036		---
2020		---	4.30%	8,385	8,385		---
2021		---	4.30%	8,749	8,749		---
2022		---	4.30%	9,129	9,129		---
2023		---	4.30%	9,715	9,715		---
Total		\$ 10,600		\$ 85,667	\$ 96,267		\$ 115,000

See accompanying independent auditor's report.

SCHEDULE "5"

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF RECEIPTS BY SOURCE AND
DISBURSEMENTS BY FUNCTION - ALL GOVERNMENTAL FUNDS
FOR THE LAST TEN YEARS**

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
Receipts:										
Property tax	\$ 216,937	\$ 209,685	\$ 206,282	\$ 174,342	\$ 147,711	\$ 146,562	\$ 136,435	\$ 134,029	\$ 137,691	\$ 135,861
Other city tax	82,026	67,223	66,672	66,509	65,914	65,542	56,045	55,086	60,174	58,538
Licenses and permits	3,165	8,400	7,022	7,069	7,007	6,060	10,708	2,710	4,421	5,889
Use of money and property	5,194	4,378	3,593	3,228	5,736	13,943	20,762	11,153	29,453	134,037
Intergovernmental	150,297	265,516	313,593	131,656	130,550	122,601	121,067	120,903	128,064	155,120
Charges for service	34,223	34,101	35,057	32,760	32,708	37,267	26,154	25,927	29,365	27,081
Special assessments	283	432	573	436	809	23,799	421	1,353	5,974	1,700
Miscellaneous	34,075	16,818	14,650	20,552	43,847	30,008	35,102	29,722	23,005	7,152
	<u>\$ 526,200</u>	<u>\$ 606,553</u>	<u>\$ 647,442</u>	<u>\$ 436,552</u>	<u>\$ 434,282</u>	<u>\$ 445,782</u>	<u>\$ 406,694</u>	<u>\$ 380,883</u>	<u>\$ 418,147</u>	<u>\$ 525,378</u>
Disbursements:										
Operating:										
Public safety	\$ 212,913	\$ 256,868	\$ 288,346	\$ 337,198	\$ 226,036	\$ 185,318	\$ 171,555	\$ 143,485	\$ 138,002	\$ 220,395
Public works	119,556	129,810	84,611	118,477	190,783	76,383	93,386	144,658	94,064	78,665
Health and social services	---	---	---	---	---	---	368	550	525	918
Culture and recreation	91,577	142,885	170,594	96,346	106,851	145,582	97,272	107,733	89,902	88,753
Community and economic development	7,417	15,183	14,002	6,926	7,579	14,639	10,816	18,489	22,359	31,711
General government	65,583	61,336	57,877	59,195	58,306	54,478	51,821	52,559	57,024	55,317
Debt service	21,303	21,710	22,130	22,554	13,136	13,567	14,003	14,412	16,819	---
Capital projects	---	---	---	---	---	457,744	---	---	---	---
	<u>\$ 518,349</u>	<u>\$ 627,792</u>	<u>\$ 637,560</u>	<u>\$ 640,696</u>	<u>\$ 602,691</u>	<u>\$ 947,711</u>	<u>\$ 439,221</u>	<u>\$ 481,886</u>	<u>\$ 418,695</u>	<u>\$ 475,759</u>

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Preston, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated February 5, 2013. We expressed an unqualified opinion on the financial statements of the various opinion units of the primary government and an adverse opinion on the aggregate discretely presented component units due to the omission of the financial data for the City's legally separate component units. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our report included a disclaimer of opinion on the other information.

Internal Control Over Financial Reporting

The management of the City of Preston is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Preston's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Preston's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Preston's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Preston's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-12 and I-B-12 to be material weaknesses. These items were noted in the prior year audit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Preston's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2012, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Preston's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Preston's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Preston and other parties to whom the City of Preston may report, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Preston during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

O'CONNOR, BROOKS & CO., P.C.

O'Connor, Brooks + Co., P.C.

Dubuque, Iowa
February 5, 2013

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- I-A-12 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual at the City has custody of receipts and performs all recordkeeping and reconciling functions for the accounts.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain maximum internal control possible under the circumstances. A council member should receive the bank statement each month and review its contents. This review should be documented by the council member initialing the statement.

Response - The City Council feels they have segregated duties to the extent possible with the existing personnel.

Conclusion - Response accepted.

- I-B-12 Adjusting Journal Entries - Several adjusting journal entries were proposed to management to represent a fair presentation of the financial statements. Significant adjustments were made to correct the fund balance of several funds.

Recommendation - We recommend that the City implement procedures to reasonably assure that account balances are fairly stated.

Response - We will consider this.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012**

Part II: Other Findings Related to Statutory Reporting:

II-A-12 Certified Budget - Disbursements during the year ended June 30, 2012, exceeded the amounts budgeted in the public works culture and recreation, general government, and debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-B-12 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-12 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-12 Business Transactions - No business transactions between the City and City officials or employees were noted.

II-E-12 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-12 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not.

II-G-12 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-12 Revenue Bonds and Notes - No instances of non-compliance with the revenue bond and note resolutions were noted.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2012**

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-I-12 Financial Condition - The General Fund had a deficit balance of \$22,042; the Special Revenue, Special Assessments Fund had a deficit balance of \$654; the Debt Service Fund had a deficit balance of \$108,140; the Enterprise, Electric Fund had a deficit balance of \$18,081; and the Internal Service, Shed Reserve Fund had a deficit balance of \$5,931 at June 30, 2012. All of these funds had deficit balances in the previous fiscal year. The deficit balance in the debt service fund continues to increase due to no amounts being transferred in for the principal and interest payments due on the City's debt.

Recommendation - The City should continue to investigate alternatives to eliminate these deficits in order to return the funds to a sound financial position. This could include other revenue sources, as well as reviewing the budget process for cost reductions. The City should also transfer funds as needed to the debt service fund to provide monies for the payment of general obligation debt.

Response - We will investigate ways to eliminate these deficits.

Conclusion - Response accepted.